

## HOUSE BILL NO. 609

INTRODUCED BY B. STORY

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING THE AGRICULTURAL LANDS ADVISORY COMMITTEE MORE DISCRETION IN DETERMINING THE UNDERLYING BASIS FOR ITS RECOMMENDATIONS FOR AGRICULTURAL PRODUCTIVE LAND VALUES FOR PROPERTY TAX PURPOSES; AND AMENDING SECTION 15-7-201, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**Section 1.** Section 15-7-201, MCA, is amended to read:

**"15-7-201. Legislative intent -- value of agricultural property.** (1) Because the market value of many agricultural properties is based upon speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

(2) Agricultural land must be classified according to its use, which classifications include but are not limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land must be subclassified by production categories. Production categories are determined from the productive capacity of the land based on yield.

(4) In computing the agricultural land valuation schedules to take effect on the date when each revaluation cycle takes effect pursuant to 15-7-111, the department of revenue shall determine the productive capacity value of all agricultural lands using the formula  $V = I/R$  where:

(a) V is the per-acre productive capacity value of agricultural land in each land use and production category;

(b) I is the per-acre net income of agricultural land in each land use and production category and is to be determined as provided in subsection (5); and

(c) R is the capitalization rate and, unless the advisory committee recommends a different rate and the department adopts the recommended capitalization rate by rule, is equal to 6.4%. This capitalization rate must remain in effect until ~~new agricultural land valuation schedules are adopted by the department, after considering the recommendations from the advisory committee as provided in subsection (7) the next~~

1 revaluation cycle.

2 (5) (a) Net income must be determined separately in each land use based on production categories.

3 (b) Net income must be based on commodity price data, which may include grazing fees, crop  
4 and livestock share arrangements, cost of production data, and water cost data for the base period, ~~as~~  
5 ~~follows:~~ using the best available data.

6 (i) Commodity price data and cost of production data ~~and grazing fees~~ for the base period must  
7 be obtained from the Montana Agricultural Statistics, ~~and from~~ the Montana crop and livestock reporting  
8 service, and other sources of publicly available information if considered appropriate by the advisory  
9 committee.

10 (ii) Crop share and livestock share arrangements are based on ~~the rental value of the land~~ typical  
11 agricultural business practices and average landowner costs.

12 (iii) Allowable water costs consist only of the per-acre labor costs, energy costs of irrigation, and,  
13 unless the advisory committee recommends otherwise and the department adopts the recommended cost  
14 by rule, a base water cost of \$5.50 for each acre of irrigated land. TOTAL ALLOWABLE WATER COSTS MAY NOT  
15 EXCEED \$40 FOR EACH ACRE OF IRRIGATED LAND. ~~Total allowable water costs may not exceed \$35 for each acre~~  
16 ~~of irrigated land.~~ Labor and energy costs must be determined as follows:

17 (A) Labor costs are zero for pivot sprinkler irrigation systems; \$4.50 an acre for tow lines, side  
18 roll, and lateral sprinkler irrigation systems; and \$9 an acre for hand-moved and flood irrigation systems.

19 (B) Energy costs must be based on per-acre energy costs incurred in the energy cost base year,  
20 which is the calendar year immediately preceding the year specified by the department in 15-7-103(5).  
21 By July 1 of the year following the energy cost base year, an owner of irrigated land shall provide the  
22 department, on a form prescribed by the department, with energy costs incurred in that energy cost base  
23 year. In the event that no energy costs were incurred in the energy cost base year, the owner of irrigated  
24 land shall provide the department with energy costs from the most recent year available. The department  
25 shall adjust the most recent year's energy costs to reflect costs in the energy cost base year.

26 (c) The base crop for valuation of irrigated land is alfalfa hay, adjusted to 80% of sales price, and  
27 the base crop for valuation of nonirrigated land is wheat. The base unit for valuation of grazing lands is  
28 ~~the average grazing fee for a 1,000-pound animal~~ animal unit months (AUM), defined as the average  
29 monthly requirement of pasture forage to support a 1,000-pound cow with a calf or its equivalent.

30 (d) ~~The~~ Unless the advisory committee recommends a different base period and the department

1 ~~adopts the recommended base period by rule, the~~ base period used to determine net income must be the  
2 most recent 7 years for which data is available prior to the date the revaluation cycle ends. ~~Commodity~~  
3 ~~price Unless the advisory committee recommends a different averaging method and the department adopts~~  
4 ~~the recommended averaging method by rule, data and grazing fees~~ referred to in subsection (5)(b) must  
5 be averaged ~~for the 7-year period~~, but the average must exclude the lowest and highest ~~commodity prices~~  
6 ~~or grazing fees yearly data~~ in the period.

7 (6) The department shall compile data and develop valuation manuals adopted by rule to  
8 implement the valuation method established by subsections (4) and (5).

9 (7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and  
10 agricultural economics ~~to compile and review the data required by subsections (4) and (5)~~. The advisory  
11 committee shall include one member of the Montana state university-Bozeman, college of agriculture, staff.  
12 The advisory committee shall:

13 (a) compile and review data required by subsections (4) and (5);

14 (b) recommend to the department any adjustments to data or to landowners' share percentages  
15 if required by changes in government agricultural programs, market conditions, or prevailing agricultural  
16 practices;

17 (c) recommend appropriate base periods and averaging methods to the department;

18 (d) evaluate the appropriateness of the capitalization rate and recommend a rate to the  
19 department;

20 (e) verify for each class of land that the income determined in subsection (5) reasonably  
21 approximates that which the average Montana farmer or rancher could have attained; and

22 (f) recommend agricultural land valuation schedules to the department. With respect to irrigated  
23 land, the recommended value of irrigated land may not be below the value that the land would have if it  
24 were not irrigated."

25 - END -